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## BEFORE THE ARIZONA CORPORATION COMMISSION

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2008 AUG 20 P 2:29

AZ CORP COMMISSION  
DOCKET CONTROL

6 IN THE MATTER OF THE APPLICATION OF  
7 SAHUARITA WATER COMPANY L.L.C. FOR  
8 AN EXTENSION OF ITS CERTIFICATE OF  
CONVENIENCE AND NECESSITY.

DOCKET NO. W-03718A-07-0687

**NOTICE OF FILING  
AMENDED STAFF REPORT**

9 During the hearing held August 7, 2008, the Administrative Law Judge requested ACC  
10 Utilities Division Staff ("Staff") to file an Amended Staff Report based on Staff's testimony during  
11 the hearing. Staff submits its Amended Staff Report.

12 RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of August, 2008.

13  
14 Robin R. Mitchell  
15 Attorney, Legal Division  
16 Arizona Corporation Commission  
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19 Original and thirteen (13) copies  
20 of the foregoing were filed this  
20<sup>th</sup> day of August, 2008 with:

21 Docket Control  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
Phoenix, Arizona 85008

24 Copy of the foregoing mailed this  
25 20<sup>th</sup> day of August, 2008 to:

26 Lawrence V. Robertson, Esq.  
27 Attorney at Law  
28 P.O. Box 1448  
Tubac, Arizona 85646  
Counsel for Applicant

Arizona Corporation Commission  
**DOCKETED**

AUG 20 2008

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AMENDED STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

SAHUARITA WATER COMPANY, L.L.C.

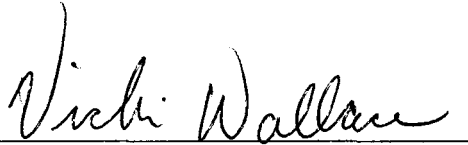
DOCKET NO. W-03718A-07-0687

APPLICATION FOR AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE & NECESSITY  
TO PROVIDE WATER SERVICE TO  
UNINCORPORATED AREAS IN PIMA COUNTY, ARIZONA


AUGUST 20, 2008

## STAFF ACKNOWLEDGEMENT

The Amended Staff Report for Sahuarita Water Company, L.L.C. (Docket No. W-03718A-07-0687) was the responsibility of the Staff members listed below. Vicki Wallace was responsible for the review and analyses of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

A handwritten signature in cursive script that reads "Vicki Wallace". The signature is written in black ink and is positioned above a horizontal line.

Vicki Wallace  
Chief of Consumer Services

A handwritten signature in cursive script that reads "Dorothy Hains". The signature is written in black ink and is positioned above a horizontal line.

Dorothy Hains  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**SAHUARITA WATER COMPANY, L.L.C.**  
**DOCKET NO. W-03718A-07-0687**

On December 14, 2007, Sahuarita Water Company, L.L.C. ("SWC" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to provide water service to additional areas within Pima County, Arizona. On May 2, 2008, SWC filed an amended application requesting an Opinion and Order: (1) transferring the CC&N currently held in the name of Rancho Sahuarita Water Company, L.L.C. to Sahuarita Water Company, L.L.C.; and (2) granting SWC an extension to the existing CC&N thereby authorizing SWC to provide water service to include additional areas within Pima County, Arizona.

SWC is an Arizona limited liability corporation, authorized by the ACC to provide water service within portions of Pima County, Arizona. By this application, SWC is seeking to extend its current approximate five (5) square mile CC&N to include an additional 5,322 acres (approximately seven (7) square miles in size) located southwest of the Company's existing CC&N.

Staff concludes that the existing SWC system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N, and the described plant will provide the Company with sufficient capacity to serve the requested extension area. Staff further concludes that it is reasonable to assume that SWC will develop additional capacity as needed to meet future growth in the requested extension area.

Staff concludes that the Company's estimates of the initial five year period expenditures of \$16,533,375 are reasonable and appropriate for this project. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for future rate making or rate base purposes.

Staff recommends that the Commission approve the SWC's request to transfer its CC&N from Rancho Sahuarita Water Company, L.L.C. to Sahuarita Water Company, L.L.C., and for an extension of its Certificate of Convenience and Necessity in portions of Pima County to provide water service, subject to compliance with the following conditions:

1. To require the SWC to charge its existing rates and charges in the proposed extension area.
2. To require SWC to docket as a compliance item in this case within three years of the effective date of an order in this proceeding copies of the Approval to Construct for well(s), storage tank(s), booster pump station(s) and distribution system that will be needed to serve the initial subdivision in the requested extension area.

3. That the Company docket, as a compliance item in this case, within two years of the effective date of the order granting the extension, documentation from ADWR stating that the Company's Designation of Assured Water Supply- has been modified to include this new extension area.
4. To require that off-site infrastructure for new connections be funded through hook-up fees and not off-site facilities agreements.

Staff further recommends that the Commission's decision granting this extension of its Certificate of Convenience and Necessity to the SWC be considered null and void after due process without further order from the Commission should SWC fail to meet conditions 2 and 3 within the time specified.

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## **INTRODUCTION**

On December 14, 2007, Sahuarita Water Company, L.L.C. ("SWC" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to provide water service to additional areas within Pima County, Arizona. On May 2, 2008, SWC filed an amended application requesting an Opinion and Order: (1) transferring the CC&N currently held in the name of Rancho Sahuarita Water Company, L.L.C. ("RSWC") to Sahuarita Water Company, L.L.C.; and (2) granting SWC an extension to the existing CC&N thereby authorizing SWC to provide water service to include additional areas within Pima County, Arizona. The amended application also deleted the request to extend its CC&N to include 112 acres to serve the Sahuarita Unified School District ("SUSD") as SWC had learned since filing the original application that SUSD facilities were located within the boundaries of SWC's existing CC&N.

On January 14, 2008, the ACC Utilities Division ("Staff") filed an Insufficiency Letter indicating that the Company's application did not meet the sufficiency requirements of the Arizona Administrative Code ("A.A.C.") R14-2-402. Staff sent additional data requests to the Company on January 31, 2008. On March 13, 2008, the Company filed its response to the first sufficiency letter. On April 9, 2008, Staff filed a Second Insufficiency Letter listing additional deficiencies to be cured for administrative purposes. On April 25, 2008, the Company filed its response providing additional information to address the deficiencies. On May 27, 2008, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

On May 30, 2008, a Procedural Order was issued setting the matter for hearing on August 7, 2008.

## **BACKGROUND**

SWC is an Arizona limited liability company and is in good standing with the Commission's Corporations Division. On December 20, 1995, in Decision No. 59431, the Commission granted Interchange Water Company ("IWC"), an Arizona corporation, a CC&N to provide water service within portions of Pima County. The water service area therein certificated included the then contemplated master-planned community of Rancho Sahuarita, which has since become a reality. On November 2, 1999, in Decision No. 62032, the Commission authorized RSWC, an Arizona limited liability Company, to acquire the water system assets and then existing CC&N of IWC.

On October 15, and October 18, 2007, respectively, RSWC filed Articles of Amendment with the Commission's Corporations Division for Rancho Sahuarita Water Company, L.L.C. in which RSWC indicated that Mission Peaks 4000, LLC ("Mission Peaks 4000"), a Nevada limited liability company, had acquired a 20 percent or greater membership interest in RSWC and that its name was being changed to Sahuarita Water Company, L.L.C. SWC currently serves

approximately a five square mile area with approximately 4,250 customers located in the Rancho Sahuarita and Rancho Resort residential communities.

By this application and amended application, SWC is seeking to extend its current CC&N to include an additional 5,322 acres (approximately seven square miles in size) to provide water service to approximately 20,300 additional customers. The requested extension area is located southwest of the Company's existing CC&N near the Town of Sahuarita in southwest Pima County and is non-contiguous to the existing service area. The Company estimates that 2,204 new customers will be served in the requested area by the end of the fifth year. Exhibit 1 is the legal description and map of the proposed extension area.

### **THE NAME/OWNERSHIP CHANGE**

The change in name from RSWC to SWC was occasioned by requests for water service which RSWC had received from several owners of real property near to the exterior boundaries of its existing CC&N. Each of the three entities requesting service are located outside of the boundaries of the Rancho Sahuarita master-planned community but within the general vicinity of the Town of Sahuarita, and the owners of RSWC thus concluded the name change would be appropriate to reflect a more regional presence.

RSWC was initially owned by Sharpe & Associates, Inc. and Interchange Opportunity Fund, L.L.L.P. As indicated above, Mission Peaks 4000, L.L.C. acquired a share of the Company in 2007. With the filing of the Amended Articles of Organization and the name change, SWC's current ownership percentages are as follows: Sharpe & Associates, Inc., 2/3 percent (.667); Mission Peaks 4000, L.L.C., 33 1/3 percent (33.333), and Interchange Opportunity Fund, L.L.L.P., 66 percent (66.00). Both limited liability companies are in good standing with the ACC Corporations Division. Interchange Opportunity Fund, a limited liability limited partnership, is filed and up-to-date with the Arizona Secretary of State's Office; and the agent/owners listed are David S. Cutler, CPA, and Sharpe & Associates, Inc.

In response to Staff's inquiry regarding any organizational and managerial structure changes resulted from the name change and/or ownership change, SWC advised that the organizational structure of SWC changed only in the sense that Mission Peaks 4000, L.L.C. acquired a minority membership interest. SWC further advised that the managerial structure did not change and that Sharpe and Associates, Inc. continued to be the Manager of SWC. Staff also inquired if Mission Peaks, L.L.C. had any previous experience operating a water or wastewater company and was advised that it did not and that in its status as a minority member, Mission Peaks, L.L.C. would not be directly involved in the day-to-day operations of SWC.

Mission Peaks 4000, L.L.C., a Nevada limited liability company, is in good standing with the ACC Corporations Division and is owned by American Nevada Company, L.L.C., Rancho Maria Colorado, L.L.C., ANC Arizona I, L.L.C., and Tucson 4000, L.L.C. American Nevada Company, L.L.C. is the managing partner for Mission Peaks, L.L.C. and was formed in 1974 as the real estate development arm of the Greenspun group of companies. America Nevada's



community developments are touted to be the most recognized in the Las Vegas valley setting high standards for land use, architectural design and engineering. American Nevada Company, L.L.C. is also in good standing with the ACC Corporations Division.

## **REQUESTS FOR SERVICE**

SWC has received requests for services from Mission Peaks 4000, L.L.C. (part owner of SWC), Sahuarita Mission Partners, an Arizona general partnership, and the Arizona State Land Department.

The Mission Peaks 4000 development covers 4,228 acres that it owns and anticipates serving 15,000 residences. SWC indicates that this development, which will be referred to as Mission Peaks Master-Planned Community ("Mission Peaks"), will consist of: (1) 11,123 single-family units; (2) 2,371 active-adult units; (3) 1,506 multi-family units; and (4) an additional 1.1 million square feet of non-residential use, which will include commercial developments, recreation centers, places of worship, and a police and fire station. In addition, current plans contemplate one (1) high school, one (1) middle school, and two (2) elementary schools.

The Sahuarita Mission development covers 471 acres that it owns and anticipates serving 3,000 single-family residences. The Arizona Land Department currently contemplates a buildout density of 2,300 single-family units for the 634 acres that it owns.

SWC anticipates that development in the proposed CC&N extension area will occur in multiple phases over a thirty (30) year period of time. The applicant indicates that the overall development pattern projected for the entire proposed CC&N extension area will be conducted in three phases starting with the Mission Peaks 4000 development. This development will also be divided into three phases, the first of which is not anticipated to be completed until 2014.

During Staff's review, it was noted that none of the requested extension areas were contiguous to SWC's current CC&N, but that some of the extension area was contiguous to Las Quintas Serenas Water Company ("Las Quintas"). Staff asked SWC if any of the entities requesting service had contacted Las Quintas about providing water. The Company advised that the only entity requesting service from SWC whose property boundary was adjacent to Las Quintas was Mission Peaks. It was the Company's understanding that Mission Peaks spoke with the majority owner of Las Quintas approximately two years ago regarding the possibility of receiving water service, but that such contact did not result in any subsequent substantive discussions. Although it's not a current requirement of water companies, Staff asked if SWC had notified Las Quintas that SWC was requesting to serve the area. SWC responded that it did not notify Las Quintas itself. However, the prospect of SWC being the water provider to Mission Peaks and the other properties has been a matter of common knowledge in the Sahuarita/Green Valley area for more than a year, and it has been the subject of a number of newspaper articles discussing the proposed Mission Peaks development. Through its own research, Staff did find multiple articles about the Mission Peaks development and the provision

of water by SWC. Additionally, no other utility companies or individuals have filed to intervene in this docket.

## **FINANCE OF FACILITIES**

The Company indicates that SWC will initially finance the required transmission and distribution facilities using a combination of funds in the form of main line extension agreements ("MXAs") and off-site facilities agreements (Advances in Aid of Construction ("AIAC") and Contributions in Aid of Construction ("CIAC")) with master developer(s) and/or subdivision developer(s) approved by the Commission's Utility Division and common equity. The Company indicates the reason that it will initially utilize MXA's and off-site facilities agreements for funding was due to the size of the project and the fact that no infrastructure currently exists within the CC&N extension area. The Company further indicates that once customers begin taking service, the Company will utilize hook-up fees as the main source of funding. The Company feels it is conceivable that at some point in the buildout of the existing CC&N and CC&N extension areas, SWC might conclude that it also would be appropriate to finance a portion of the water system capacity with long-term debt. At that point, SWC would seek and obtain Commission authorization before incurring any long-term debt. The Company further advised that depending on its financial situation at the time, SWC might consider common equity as a means of financing a portion of the overall transmission system.

In Decision No. 62032 (November 2, 1999), the Commission authorized the Company an Off-site Facilities Hook-up Fee Tariff. The tariff requires SWC to obtain a hook-up fee CIAC determined by meter size and number of connections. The amount collected is to be deposited into a trust account and used to finance the construction of off-site facilities. The hook-up fee tariff states that its purpose is "to equitably apportion the costs of off-site water facility development to serve the Company's Service Area among all new service connections in that area." It is Staff's position that a company cannot use a combination of off-site service agreements and hook-up fees for new infrastructure. In other words, once a company has an approved hook-up fee, that would be the method of funding new off-site infrastructure requirements for new connections in addition to investment by the Company if needed. Thus, Staff recommends that off-site infrastructure for new connections be funded through hook-up fees and not off-site facilities agreements.

## **THE WATER SYSTEM**

Staff's Engineering Report which is attached as Exhibit 2 describes the existing and proposed water system in detail. The Company has two drinking water wells with a production rate of 3,520 gallons per minute ("GPM"), three storage tanks with combined capacity of 2,550,000 gallons, and five pressure tanks which serve the existing CC&N. Although the Company does not own one of the production wells, the Company holds a 99 year lease agreement from the Town of Sahuarita who does own the leasing well. Staff concludes that the existing SWC system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N.

To serve the requested extension area the Company proposes to install, within five years, new plant items including, but not limited to: (1) one new 1,500 GPM well; (2) three 600,000 gallon storage tanks; (3) one 2,500 GPM booster station; (4) one 1,700 GPM booster station; (5) one 2,300 GPM booster station; and (6) one 3,300 GPM booster station and transmission mains.

In response to Staff data requests, the Company submitted an Opinion of Probable Construction Costs prepared by Westland Resources, Inc., that included a description of the proposed new water system and estimated plant costs for the next five years (a summary of which is in Exhibit 2) that totaled \$16,533,375. The Company does not expect to provide service in the requested extension area until late 2010.

Staff concludes that the plant items listed above will provide the Company with sufficient capacity to serve the requested extension area. Staff further concludes that it is reasonable to assume that SWC will develop additional capacity as needed to meet future growth in the requested extension area.

Staff concludes that the Company's estimates of the initial five year period expenditures of \$16,533,375 are reasonable and appropriate for this project. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for future rate making or rate base purposes.

## **ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

### *Compliance Status*

ADEQ regulates the water system under ADEQ Public Water System I.D. No. 10-312. ADEQ reported that it has determined that SWC is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>1</sup>

### *Certificate of Approval to Construct*

The Company has not submitted ADEQ or other authorized agency-issued permits, either Certificates of Approval to Construct ("ATC") or Certificates of Approval of Construction ("AOC"), for the plant items needed to serve the requested extension area. Staff recommends that the Company docket as a compliance item in this case within three years of the effective date of an Order in this proceeding copies of the ATCs for well(s), storage tank(s), booster pump station(s) and distribution system that will be needed to serve the initial subdivision in the requested extension area.

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<sup>1</sup> Compliance status reports received from ADEQ on May 30, 2008.

## **ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

### *Compliance Status*

SWC is located in the Tucson Active Management Area ("AMA"), as designated by ADWR. Staff received an ADWR compliance status report on June 23, 2008, and ADWR reported that it has determined that SWC is currently in compliance with departmental requirements governing water providers and/or community water systems.

### *Designation of Assured Water Supply ("DAWS")*

In its application, SWC indicates that it currently has a Designation of Assured Water Supply from ADWR of 4,700 annual acre feet, and it submitted an application to ADWR on November 23, 2007, to modify the Designation of Assured Water Supply, by way of an increase, to reflect its ability to fully provide the projected water demand at buildout in both the existing and proposed CC&N extension areas for the statutorily-prescribed 100 years. Accompanying that request was an Assured Water Supply Hydrology Report for SWC that was prepared by Brown and Caldwell, an engineering and hydrology consultant firm. SWC received an administrative completeness review letter requesting additional information from ADWR dated March 27, 2008, and a response to ADWR's letter was sent by SWC on July 7, 2008. SWC asserts the hydrology analysis in the above-referenced report demonstrates the physical availability of 10,983 acre feet of local groundwater for both the existing CC&N and the proposed CC&N extension areas of SWC at buildout for the requisite 100 year period.

Staff recommends that the Company docket, as a compliance item in this case, within two years of the effective date of the order granting the extension, documentation from ADWR stating that the Company's DAWS has been modified to include this new extension area.

## **ACC COMPLIANCE**

According to the Utilities Division Compliance Section, the Company has no delinquent ACC compliance item.

## **WASTEWATER PROVIDER**

According to the Company, wastewater service in the requested extension area will be provided by either Pima County Wastewater Management or the Town of Sahuarita. The Company advised that a determination had not yet been made between those two (2) jurisdictional entities as to which would be the provider of wastewater services.

## **CURTAILMENT PLAN TARIFF AND CROSS CONNECTION TARIFF**

In Decision No. 65464, (December 19, 2002) the Commission approved a Curtailment Plan Tariff for SWC. SWC also has a Cross Connection Tariff in place.

## **PROPOSED RATES**

SWC has proposed to extend service to the extension property at its tariffed rates.

## **CITY OR COUNTY FRANCHISE/PERMIT**

The Town of Sahuarita does not issue franchises. A permit is obtained from the Town each time a project enters into the property, roads, or alley ways of Sahuarita. All extensions of the SWC's facilities under the proposed CC&N extension would occur within unincorporated areas of Pima County. SWC currently has a Public Utility License Agreement between Pima County and SWC that pertains to SWC's use of public rights-of-way within the municipal boundaries.

## **RECOMMENDATIONS**

Staff recommends that the Commission approve SWC's request to transfer its CC&N from Rancho Sahuarita Water Company, L.L.C. to Sahuarita Water Company, L.L.C., and for an extension of its Certificate of Convenience and Necessity in a portion of Pima County to provide water service, subject to compliance with the following conditions:

1. To require the SWC to charge its existing rates and charges in the proposed extension area.
2. To require SWC to docket as a compliance item in this case within three years of the effective date of an order in this proceeding copies of the Approval to Construct for well(s), storage tank(s), booster pump station(s) and distribution system that will be needed to serve the initial subdivision in the requested extension area.
3. That the Company docket, as a compliance item in this case, within two years of the effective date of the order granting the extension, documentation from ADWR stating that the Company's DAWS has been modified to include this new extension area.
4. To require that off-site infrastructure for new connections be funded through hook-up fees and not off-site facilities agreements.

Staff further recommends that the Commission's decision granting this extension of its Certificate of Convenience and Necessity to the SWC be considered null and void after due process without further order from the Commission should SWC fail to meet conditions 2 and 3 within the time specified.

## MEMORANDUM

DATE August 18, 2008

TO: Vicki Wallace, Chief  
Consumer Services & Special Projects

FROM: Dorothy Hains, P. E. *DH*  
Utilities Engineer

RE: **REVISED REPORT FOR WATER CC&N EXTENSION FOR  
SAHUARITA WATER COMPANY, LLC.  
DOCKET NOS. W-03718A-07-0687**

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### I. Introduction

Sahuarita Water Company, LLC. ("Sahuarita" or "Company") has submitted a Certificate of Convenience and Necessity ("CC&N") extension application to the Arizona Corporation Commission ("ACC") to provide water services near the Town of Sahuarita ("Town") in southwest Pima County. The Company currently serves approximately a five square mile service area. The Company has an existing customer base of approximately 4,250 customers. The requested extension area, which is non-contiguous to the existing service area, is approximately seven square miles in size. The requested extension area is located southwest of the Company's existing CC&N. If this application is approved, the Company estimates that it will be serving 2,204 new customers in the extension area within five years.

### II. Analysis of Water Systems

#### Existing System

The Company operates a water system that consists of two drinking water wells (having a production rate of 3,520 gallons per minute ("GPM")); three storage tanks (having a combined capacity of 2,550,000 gallons); and five pressure tanks which serve the existing CC&N. Although the Company does not own one of the production wells, the Company holds a 99 year lease agreement from the Town who owns the leasing well. The existing Sahuarita system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N.

#### Proposed System

To serve the requested extension area within the next five years, the Company proposes to install, within five years, new plant items including but not limited to (1) one new 1,500 GPM well, (2) three 600,000 gallon storage tanks, (3) one 2,500 GPM booster station, (4) one 1,700 GPM booster station, (5) one 2,300 GPM booster station, (6) one 3,300 GPM booster station and

transmission mains. The Company does not expect to provide service in the requested extension area until late 2010.

### Estimated Cost of the Proposed System

In response to Staff data requests, the Company submitted the Opinion of Probable Construction Costs that were prepared by Westland Resources, Inc. The report included a description of the proposed new water system and estimated plant costs which totaled \$16,533,375.

The summary of the infrastructure pipelines and their estimated costs for the first five years are as follows:

year	Plant Description	Quantity	Unit Price (\$/unit)	Amount (\$)
2008	No Activity			0
2009	No Activity			0
2010	New 1,500 GPM well	1 unit	1,100,000	1,100,000
	600,000 gallon forebay reservoir	1 unit	600,000	600,000
	24-inch DIP water main	7,200 (in feet)	175	900,000
	16-inch DIP water main	14,400 (in feet)	120	1,728,000
	12-inch PVC main	3,000 (in feet)	80	240,000
	2,500 GPM booster pump station	1 unit	525,000	525,000
	1,700 GPM booster pump station	1 unit	425,000	425,000
	2,300 GPM booster pump station	1 unit	525,000	525,000
	16-inch PVC water main	2,1600 (in feet)	120	259,200
	12-inch PVC water main	8,400 (in feet)	80	672,000
	24-inch DIP main	4,700 (in feet)	175	822,500
	25%Engineering, Contingencies, Inspection & Permits			1,949,175
	<b>Subtotal</b>			<b>9,745,875</b>
2011	600,000 gallon reservoir	1 unit	600,000	600,000
	3,300 GPM booster pump station	1 unit	600,000	600,000
	12-inch PVC water main	27,000 (in feet)	80	1,584,000
	24-inch DIP main	8,400(in feet)	175	1,470,000
	25%Engineering, Contingencies, Inspection & Permits			1,207,500
	<b>Subtotal</b>			<b>6,037,500</b>
2012	600,000 gallon forebay reservoir	1 unit	600,000	600,000
	25%Engineering, Contingencies, Inspection & Permits			150,000
	<b>Subtotal</b>			<b>750,000</b>
	<b>Total</b>			<b>16,533,375</b>

Staff concludes that the estimated costs listed above are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

### **III. Arizona Department of Environmental Quality (“ADEQ”) Compliance**

#### Compliance Status

ADEQ regulates the water system under ADEQ Public Water System I.D. #10-312. ADEQ reported that it has determined that Sahurita is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>1</sup>

#### Certificate of Approval to Construct

The Company has not submitted ADEQ or other authorized agencies issued permits, either Certificates of Approval to Construct (“ATC”) or Certificates of Approval of Construction (“AOC”) for the plant items needed to serve the requested extension area. Staff recommends that the Company docket, as a compliance item in this case, within three years of the effective date of the Order copies of the ATCs for well(s), storage tank(s), booster pump station(s) and distribution system that will be needed to serve the initial subdivision in the requested extension area.

### **IV. Arizona Department of Water Resources (“ADWR”) Compliance**

#### Compliance Status

Sahurita is located in the Tucson Active Management Area (“AMA”), as designated by ADWR. Staff received an ADWR compliance status report on June 23, 2008, ADWR reported that it has determined that Sahuarita Water Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

#### Designation of Assured Water Supply (“DAWS”)

Staff recommends that the Company docket, as a compliance item in this case, within two years of the effective date of the order granting the extension, documentation from ADWR stating that the Company’s DAWS has been modified to include this new extension area.

### **V. ACC Compliance**

According to the Utilities Division Compliance Section, the Company has no delinquent ACC compliance items.

### **VI. Curtailment Tariff**

The Company has an approved curtailment tariff.

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<sup>1</sup> Compliance status reports received from ADEQ on May 30, 2008.



## **VII. Wastewater Provider**

According to the Company wastewater service in the requested extension area will be provided by either Pima County Wastewater Management or the Town.

## **VIII. Summary**

### **I. Conclusions**

1. According to the Utilities Division Compliance Section, Sahuarita has no delinquent ACC compliance items.
2. Sahuarita is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. Sahuarita is currently in compliance with ADWR requirements governing water providers and/or community water systems.
4. Sahuarita is in ADWR Tucson AMA.
5. The existing Sahuarita system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N. Staff concludes that the plant items listed above will provide the Company with sufficient capacity to serve the requested extension area. Staff further concludes that it is reasonable to assume that Sahuarita will develop additional capacity as needed to meet future growth in the requested extension area.
6. The Company estimates that the total cost to install the water infrastructure to serve the requested area for the next five years is \$16,533,375. Staff concludes that the Company's estimates of the initial five year period expenditures are reasonable and appropriate for this project. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for future rate making or rate base purposes.

### **II. Recommendations**

1. Staff recommends that the Company docket, as a compliance item in this case, within three years of the Order copies of the Approval to Construct for well(s), storage tank(s), booster pump station(s) and distribution system that will be needed to serve the initial subdivision in the requested extension area.
2. Staff recommends that the Company docket, as a compliance item in this case, within two years of the effective date of the order granting the extension, documentation from

ADWR stating that the Company's DAWS has been modified to include this new extension area.